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**THE RHODESIAN JOURNAL***of***ECONOMICS****The Quarterly Journal of the Rhodesian Economic Society**

Editorial Board:

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# THE RHODESIAN JOURNAL



## ECONOMICS

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#### A TWO-DAY SYMPOSIUM

#### PART TWO

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## INDUSTRY IN RHODESIA

The Rhodesian Economic Society held a two-day Symposium on Rhodesian industrialisation on June 11 and 12. Approximately 100 people (including speakers) attended what was the most ambitious project ever undertaken by the Society in its 20-year life. The Symposium was self-financing thanks to the kind donations made by Anglo-American (Rhodesia) and Rothmans of Pall Mall (Rhodesia) Ltd.

Eleven papers were read during the two days and the (amended) papers delivered on the first day of the Symposium plus the subsequent discussions are published in this edition of the Journal. The second day's proceedings will be published in the September edition, and it is hoped to publish a survey of the Symposium analysing the main trends and conclusions in the December edition.

## INTRODUCTION

Welcoming the participants, the President of the Rhodesian Economic Society, Mr. Arthur Hunt said that the Symposium was timely for four reasons. First, for the first time in 1968, manufacturing industry had moved ahead of other sectors in its contribution to Gross Domestic Product. Industry was going to continue to develop and would be one of the most important growth factors in the future.

Second, Rhodesia had been operating a closed economy for 3½ years and it was a good moment to look back and see what lessons could be learned from this experience.

Third, the need to transform the subsistence sector into part of the modern cash economy vitally involved the manufacturing sector. Finally, increasing interest was being shown in closer economic co-operation in Southern Africa which had very far-reaching implications for secondary industry in Rhodesia.

# THE RHODESIAN JOURNAL OF ECONOMICS

**PAPER No. 7**

Professor J. A. Lombard

Professor Jan Lombard is Professor of Economics at the University of Pretoria. He is one of the authors of a recent book entitled "The Concept of Economic Co-operation in Southern Africa". He is currently a member of the "Commission of Enquiry into Fiscal and Monetary Policy" in South Africa.

## THE CONCEPT OF ECONOMIC CO-OPERATION IN SOUTHERN AFRICA

PROF. J. A. LOMBARD

### A. Introduction

The purpose of this paper is no more than to put forward some basic concepts which, to my mind, would have to underlie the economic policies of the various states on the sub-continent of Southern Africa if we all wish to obtain the greatest possible economic benefit from our respective resources without having to sacrifice our respective socio-political ideals as independent national communities.

South of the sixth parallel, i.e. including Angola, Zambia, Malawi and Mocambique, one finds a total population of close to 50 million people, producing an output of perhaps £5,000 million. I mention these aggregates merely to establish a very rough impression of the demographic and economic orders of magnitude involved. The figures have very little further significance and could in fact lead to serious misconceptions. Thus the conclusion that the income per head of the population in the sub-continent amounts to £100 is obviously meaningless, because the income base and the population base of this ratio is functionally very tenuously related to each other. The incomes actually received by the set of people living, say around Lake Bangweulu, in Zambia, are at present not even remotely influenced by the productive capacity of the community living say in Paarl, South Africa.

One might go one step further to point out that the statistical fact that Malawi's income per capita is only about £25 compared with around £100 of the Indian population in Natal tells the economist very little, less in fact than the statement that the income per capita in the United States amounts to a few thousand times that of Peru.

On the other hand, these statistical differentials may mean much more politically, i.e. in the value systems of the communities as defined in the programmes of their respective governments. As Dr. Anton Rupert put it so graphically, "if the people in Lesotho do not eat, we in the Republic of South Africa cannot sleep". The point is, of course, that the peoples of this sub-continent are beginning to feel politically more related to each other than they are to the rest of the world. The colonial pattern is rapidly disappearing, and a sub-continental pattern emerging.

The main question is whether in economic fact, as distinct from ethical or political value judgements, more can be done about hunger in Lesotho or anywhere else under a pattern of sub-continental co-operation, than under the colonial system. Will the new emerging pattern be able to effect more rapid increases in the per capita incomes of the several communities involved.

This, I believe, has become the most important question to be answered by the leaders of thought in Southern Africa. It is a question which involves the knowledge, expertise and enthusiasm of a great many disciplines, of which economics is but one.

While the science of economics could not claim an overriding role in this great investigation which is now upon us—it certainly is subservient to realistic political values—economists are trained in the problem of critical choice where this involves scarce resources. Consequently the task of defining the broad framework within which the technologists, on the one hand, and the social scientists on the other hand, would be drawn, should be entrusted to economists with a sympathetic understanding of the political aspirations of the communities involved.

Not that all economists will completely agree among each other on the most feasible kind of framework to adopt. We have unfortunately picked up a certain notoriety for disagreement—but that happened because economists think that they have to shout to be heard in this world. On the problem before us, there is indeed disagreement among economists, but it could soon be disposed of among ourselves if we keep our voices low.

### **B. The idea of Economic Integration in Southern Africa**

In this spirit, I should like to open the debate by suggesting that we rule out the idea of a common market as the basis of future economic and political relationships in the sub-continent. To me it seems obviously unsuitable for the purpose in hand, and I am greatly strengthened in my opinion by a recent statement by your own Minister of Economic Affairs to the same effect. The idea is, however, persistently brought up by spokesmen for business in the Republic. There is also the fact that the 1910 Customs-Union agreement among Botswana, Lesotho, the Republic and Swaziland will probably be renewed this year. It surprised me to read in a recent Press report that the Prime Minister of Swaziland also expressed himself in favour of an economic union with *east* Africa, if only for the technical reason that one country cannot belong to two separate customs unions.

I cannot, in the time at my disposal survey the whole field of economic integration, of which the common market is merely the commercial dimension. A few quotations from theory and practice will have to suffice.

- (a) The European movement towards integration as envisaged by Monnet, Schumann and particularly Walter Hallstein was inspired by the idea that the integration of resource use, particularly of coal and steel, would make another war between France and Germany impossible. More, the Brussels Commission of the E.E.C. under Hallstein clearly saw that the integration of commercial and agricultural policy under a supra-national regime would inevitably compromise labour policy, fiscal and eventually monetary policy to such an extent that economic policy in its entirety would have to be integrated. Since so much of the political programmes of nations are functionally related to the budget, taxes, interest rates, labour conditions, it is not difficult to understand the fear of President de Gaulle that this process would lead to the total capitulation of national governments to supra-national rule. On this issue, I believe, the Hallstein-de Gaulle clash of philosophy came to a head.
- (b) On the question whether such supra-national rule is a feasible proposition even for economists, no greater living liberal economist than Professor Lionel Robbins\* of the London School of Economics could be quoted.

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\* See L. Robbins: *Politics and Economics*, papers in applied economics, MacMillan, London, 1963.

Robbins devoted a life time of theoretical thoughts to these problems of international relationships. His basic thesis on the functional chain reaction in the integration of economic policies and political sovereignty accords with what I have said about the E.E.C., but he simply hoped that some kind of Federal political constitution could be made to work. More interesting in our context are some *obiter dicta* expressed by Robbins on problems which are really much more important in Africa than in Europe:

- (i) "It is certainly to be expected that, on balance, the increased territorial division of labour within the integrated area will make possible a larger volume of production within the area. It does not follow, however, that all productive groups necessarily participate in this gain unless there is complete mobility of labour."\* Hence he thought the advocates of integration ought not to claim that there is inevitable gain for all and sundry regardless of whether they are prepared to face up to the labour migration which might be implied.
- (ii) Regardful then of the labour migration which has indeed taken place to Rhodesia under the old Federation and to the Southern Transvaal under the South African customs union, Robbins has this to say about the social preconditions for successful federation of the political power of the several cultures migrating to economic growth points: "There must be adequate communication . . . but much more important, there must exist a certain minimum degree of likemindedness between the powers. . . . You will not surrender control of your destiny to majorities whose intentions and whose conceptions of the true ends of life you fear to be inimical to your own."\*\*
- (iii) But Robbins' main argument for the limitation of movement is based on the assumption (in our case the fact) of differences in demographic tendencies. "If the inhabitants of a certain area are so fixed in habits of rapid multiplication that there is no hope of speedy change, then it is obviously in the interests of the world as a whole that they should be confined to a smaller rather than a larger area."†

So much about the attitude of the true theoretical liberal, at this stage. I would merely like to add that the manner in which the true liberal idea has been misrepresented in Southern Africa may one day be regarded by history as one of the most tragic mistakes of our age. Being neither *laissez faire* nor central planning, it contains the most hopeful economic principles of solving the problems confronting us.

- (c) My third set of quotations are from experience in Africa itself. Research and evaluation of economic integration in East, Central and West Africa has apparently proceeded much beyond anything that has so far been attempted in Southern Africa, and of the many English and French works I can only quote the following as typical examples of the state of thinking:
  - (i) Reginald Green, writing on "African economic unification" in *The Economic Bulletin of Ghana*‡, says that "regional economic integration as a framework for, and a means to, accelerating economic development is a topic of political economy more than of 'pure' economic

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\* Ibid., page 119.

\*\* Ibid., page 152.

† Ibid., page 123.

‡ No. 2, 1965.

analysis". While Mr. Green argues strongly in favour of integration of the West African States on economic grounds, he concedes that "it cannot be achieved without a very high level of political unification or federation". The same conclusion was reached for the idea of a common market for Senegal and Gambia by Peter Robson.\*

- (ii) Likewise the conclusions of Bazar and La Croix about the Brazzaville treaty in 1964 for a customs union between the Congo, the Cameroons, Gabon and Chad: "Pour que l'Union Economique devienne effectif, il faut en effet une politique commune, tout au moins dans les secteurs clés de la vie économique."\*\*
- (iii) In the experience of the East African common market between Kenya, Uganda and Tanganyika, perhaps the thorniest problem (was) the location of industry within the common market" according to J. S. Nyet† and on this same region, the opinion of Peter Newman‡ was: "There is no presumption whatever in economic theory that a common market will necessarily operate to the benefit of each of its members, nor is the factual evidence reassuring on this point".

From the quotations it seems abundantly clear that, given the political and demographic pattern in Southern Africa, neither theory nor experience elsewhere would support the idea of economic integration in Southern Africa. It would be a waste of time and energy to work towards this idea in our lifetime.

Even if we feel that integration may at some stage in the future of the sub-continent be both economically advantageous and politically feasible, this does not mean that we should lay the foundations for that eventuality at the present juncture. In fact, I would argue that, as in mathematics, one must first learn to differentiate correctly, before one can integrate properly.

As is well known from the classic analysis of Jacob Viner, and of James Meade and others on Customs Unions, countries whose economies are largely complementary to each other have very little to gain from the formation of a customs union. In fact other writers, such as Myrdal would stress that the union may simply perpetuate existing lines of specialisation which, for the underdeveloped areas in the Union may be disadvantageous in the long run, if they happen to have the resources to diversify into industries with greater long-term potential.

For this reason, and others, it is doubtful whether the pending renewal of the customs union between Botswana, Lesotho, the Republic and Swaziland, will in fact continue the 1910 philosophy, or whether the new agreement will, in fact, still comply fully with the characteristics of a true customs union. The less developed members are bound to seek assurances of freedom to subsidise infant industries in their own areas in one way or another.

### C. Trade with the rest of the world

Two patterns of external economic relationships for the several states of Southern Africa which would be the opposite of economic integration would be

\* "The problem of Sene-Gambia", *Journal of Modern African Studies*, Vol. 3, No. 3, 1965.

\*\* L'Economie des Etats l'Afrique Equatoriale et du Cameroun.

† "The extent and viability of East African Co-operation" in *East African Opportunities and Problems* (Ed.) C. Leys and P. Robson, Oxford, 1965.

‡ *The Economics of Integration in East Africa*, Oxford University Press.



(a) autarchic or self-sufficient development and planning in each state—an hypothetical idea completely unrealistic for most of the states concerned in view of their modest size and the lack of fully diversified resources—and (b) the continuation of the current reliance on trade and other relationships with the rest of the world.

My Department\* has recently begun a study of the existing and potential trade patterns. A matrix of total trade flows for 1964 has already been prepared. From this it appeared that the trade among the states of the region amounted to about £326 million. This was about 27.9 per cent of their total exports to all countries and about 25.0 per cent of their total imports from all countries.

Of all the states concerned, Rhodesia's reliance on trade within the sub-continent seems to be much greater than any of the other states concerned. In 1965, for example, 42 per cent of total exports flowed to four other states in the region, while 29 per cent of imports came from these states. This Rhodesian preponderance in inter-regional trade is even greater in many of the individual commodity groups.

The idea of economic co-operation on a sub-regional level may accordingly be of greater practical and immediate importance to Rhodesia than to any of the other states.

In the case of Angola and Mocambique, the bulk of their trade is with the rest of the world outside the sub-region.

The Republic of South Africa is in no different position. Although its trade within the sub-region represents more than 80 per cent of the total figure for inter-regional trade, this trade amounts to only 10 per cent of the Republic's total external trade.

Does this pattern of trade offer a viable road to rapid economic development to the individual countries concerned? Only to a very limited extent. As far as the less developed states are concerned, their exports to Europe, the U.S.A. and Far East would remain of the peripheral kind against which Singer, Myrdal and Prebisch has written so much. As for the Republic of South Africa, its industrial penetration into world markets has been such that it has a future along these lines. But even the Republic and Rhodesia are going to find that regionalism in economic policies of the rest of the world is on the increase. Even the Republic, its industrial growth so far largely dependent on import replacement, will find the next step of export-led growth a much more difficult road, for both economical and administrative reasons.

#### D. Systematic Regional Co-operation

Halfway between sub-regional integration and isolation I believe a third alternative could be found, which my colleagues and I, in a recent publication† have called systematic co-operation.

The ideal, as we see it, is no new idea. It has been suggested for East Africa in 1965 by Peter Newman, and earlier for South America by A. O. Hirschman‡: "The problem becomes one of devising optimal institutional arrangements, as

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\* In collaboration with the University of Natal and, it is envisaged, university institutions in other parts of the sub-continent.

† J. A. Lombard, J. J. Stadler and P. J. van der Merwe, *The Concept of Economic Co-operation in Southern Africa*, Econburo, Pretoria, 1969.

‡ *The Strategy of Economic Development*, New Haven, 1958, p. 199.

it were, by which in some respects a country would be regarded as though it were a complete separate state, and in other respects would be treated primarily as a part of a region". One could then "indeed get the best of both worlds and be able to create situations particularly favourable to development".

Before devising these institutions, however, it will be necessary to illustrate that the necessary functional scope exists for such institutions. The desirable functional pattern is a greater inter-regional flow of goods at the expense of inter-regional labour migration and trade with the rest of the world. In short, without necessarily reducing the about £1,800 million trade with the rest of the world, the percentage dependence on the rest of the world could be reduced by rapidly increasing the current level of inter-regional trade valued at about £326 million.

To achieve such a statistical target, the dispersion of industrial activity over the sub-continent would have to be based on two principles, viz. the principle of comparative advantage and the principle of input-output iteration.

- (a) The principle of comparative advantage states that an area which superficially possesses no absolute cost advantages of production need not lose its economically active population through emigration. As long as some production possibilities exist technically, the area will have comparative advantages in certain directions, vis-a-vis other areas. The problem of policy is to convert these comparative cost advantages into absolute price advantages, particularly in respect of those industries with an export potential.

The limit below which this principle would have no practical application is set by the per capita income which could be generated along these lines. In general, comparative cost advantages are translated into price advantages and export potential through a lowering of wage levels, devaluation or subsidisation.

These policy measures, in fact, mean that the community has to set its national income per capita at a level which makes an export trade in goods and services rather than an emigration of labour possible. A critical choice between trade and emigration thus arises if the national income level required for trade, rather than emigration, falls below some minimum subsistence level.

If in certain areas attempts at local employment and production in comparatively most advantageous lines, to replace migration, should lead to a very serious drop in the per capita national incomes, the possibility should not be ruled out that those areas to which the labour migration threatens to take place, would be prepared to "grub-stake" the underdeveloped country's effort to employ its labour locally.

The application of the principle of comparative advantage to the planning of economic growth in undeveloped countries, is not as clearcut as in the case of trade among industrially advanced countries. When the requirements of growth theory are taken into account, the simplicity, but not the logic of the classical principle breaks down, and would according to Professor H. B. Chenery\* place a greater reliance on general knowledge and intuition. This, Chenery feels, may be a practical advantage.

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\* Chenery, H. B., "Comparative Advantage and Development Policy" in *Surveys of Economic Theory—Growth and Development*, Volume II, 1966, p. 129.

- (b) The systematic co-operation proposed in this paper would accordingly have to be planned on the basis of the inter-industrial relationships already existing in the sub-continent. At the moment these inter-relationships exist mainly in the input-output grid of the Republic. It would be economically very costly for the Republic to interfere seriously with the costs and prices of industries whose output of final goods or inputs of raw materials depend largely on markets and sources outside the sub-continent. It therefore seems practical to start with the broad proposition that those industries with high "inverse co-efficients" (that is those with several forward and backward linkages with other industries also operating in the grid) would be more amenable to positive planning than industries whose viability depends largely on export markets on the one hand or on the acquisition of raw materials and capital goods from abroad. One sector largely excluded from this exercise would be mining and certain types of agriculture such as sugar plantations, tobacco, tropical fruit, etc., which require specific climatic conditions.

The principle of comparative advantage as a basis of planning the co-operation envisaged, would then be confined to more or less "foot loose" industries.

Judging by some calculations of forward and backward linkages made by Professor D. C. Krogh some years ago, the most interesting industrial sectors would be textiles, chemicals and iron and steel products and non-ferrous metal production. In all these cases both the forward and backward linkages with other industries existing in the sub-continent were high (65 per cent and upwards) which means that their economic liability depends very largely on economic conditions within the sub-continent. Moreover, none of these industries directly serve consumer demand, so that some of the initial disadvantages of decentralised location could be absorbed within the rest of the industrial processes. In other cases such as processed food, grain mill products and leather products the backward linkages were large while, on the other hand, the dependence on final consumer demand was also high. This would, however, merely mean that increases in cost due to decentralised location, would have a direct bearing on the retail price level and could be offset in the planning process. In short, it would seem that priority might, from the point of view of plan-sensitivity be given to the so-called intermediate manufacturing processes and only in the second place to the so-called final manufacturing processes. This would, however, not be a hard and fast rule.

I realise that much of what I have said in this last section may sound like a lot of technical mumbo-jumbo on a first hearing. It is, in any case, a matter which requires much more lengthy exposition and concentrated attention. Let it, therefore, be regarded as merely a proposition for further study such as that which our study group recently formed in South Africa could undertake.

In the meantime, this paper may conclude with a few remarks on the optimal institutional arrangements to bring about a much greater measure of economic co-operation within the framework of complete political independence among the several states of the region.

Meaningful institutions are built upon agreements about functions. The kind of agreements we should, therefore, aim at are those which allow maximal exploitation of trade and other functional links on liberal economic lines similar to those of economic integration, but with this proviso that each participant

retains control over the extent and the nature of its participation in each function. (It would be of great value to obtain the reaction of Professor Robbins on this idea, which is looser than the federal control he envisages.)

The agreements at present in existence between the various states of the region, differ very substantially from each other. The question whether there is any merit in co-ordinating them in such a way that some kind of multi-lateral image emerges for the sub-continent should be carefully examined, for there are many pro's and con's involved.

Most important of all, I feel, is a thorough factual examination of the constraints placed upon this kind of special regional pattern of trade and preferences by the rules of the General Agreement on Tariffs and Trade (the famous G.A.T.T.). In short, our future relationships would fit neither of the two exceptions to international non-discrimination at present allowed, namely a full customs union and a so-called "free trade area". Recently the UNCTAD philosophy inspired G.A.T.T. to adopt a fourth chapter in its articles dealing with special concessions to under-developed states. For our purposes this Part IV does not go far enough, for it would be necessary for G.A.T.T. to agree that the regional planning and implementation of special preferential treatment for certain lines of activity be allowed.

Mr. Chairman, most of what I have said points to urgent study of new ideas of institutional co-operation between the states, rather than immediate productive activity within existing relationships. This does not imply that trade must wait for the academicians. Existing opportunities will continue to be exploited by existing market forces.

This paper merely urges the most imaginative and thorough academic effort within the shortest possible time to put forward a basic economic concept for a new set of political circumstances in Southern Africa.

## DISCUSSION OF PAPER SEVEN

Mr. Bertram said that he had been fascinated by Professor Lombard's paper, and he very much agreed with the conclusion about rejecting a Common Market in Southern Africa, for a long time to come. He liked the idea of utilizing comparative advantage on a regional basis but he thought that this would ultimately involve a nexus of bi-lateral trade agreements held together purely by a philosophy of co-operation.

Professor Lombard said he agreed and eventually it would be necessary to come to grips with the idea of a multi-lateral institutional arrangement. He said that if there were no co-ordination there was the danger that a number of regions would seek to achieve comparative advantage in the same direction which would overcrowd the market. At some stage there would have to be a multi-lateral formal plan but at this stage there were problems and each country was still feeling its way. The practical approach, he thought, would be to start off with bi-lateral agreements but to keep in mind the philosophy behind it and to work towards a multi-lateral arrangement in the future.

Mr. Chipman asked about two particular methods of economic co-operation. The first was the relationship between Rhodesia as an exporting country and the various ports used to handle Rhodesian exports. Rhodesian exporters found that they got extremely good co-operation from their own Railways and from both the Portuguese and South African railways, but not from the Port authorities—especially in Mocambique. The second problem related to shipping itself. Rhodesians had noted with great pleasure the very considerable advance in Safmarine in recent years. Mr. Chipman said he thought that the concept of economic co-operation in Southern Africa could be helped by co-operation in such fields as shipping. He added that he thought that such co-operation in ports and shipping would enhance the export opportunities and potential of the sub-continent.

Professor Lombard said he agreed that the whole question of co-operation on transport and communications was a very important matter. He added that the problem with the Portuguese was that these matters tended to be decided in Lisbon and at the moment the interests of the Portuguese trading area tended to be paramount. Mr. Wright asked if the GATT rules meant that the only economic co-operation that was possible depended on there being some sort of political alliance—not necessarily a close-knit alliance.

Professor Lombard said that under the present philosophy of GATT this was the situation. However, since the GATT had been inspired—almost pushed—by the UNCTAD philosophy of preferences for less developed countries, there had been a breakthrough and perhaps another breakthrough—in respect of regional agreements—might also be possible. Professor Lombard argued that it might be possible to get the GATT to accept a “spheres of interest” approach whereby it was accepted that some advanced areas could enter into preferential trade arrangements with more backward ones—such as South Africa entering an agreement with Malawi.

Summing up, Mr. Hawkins welcomed Professor Lombard’s pragmatic and realistic approach to the problems of economic co-ordination. However, he said he had some serious nagging doubts about the position of the more backward areas. He said he could accept that bi-lateral trade agreements between Rhodesia and South Africa or Mocambique and South Africa could be acceptable as could technical and infrastructure co-operation with backward countries like Botswana. But the Federal experience and the position of a country like Malawi was still fresh in many Rhodesian minds. A country like Malawi had very little to gain in terms of trade and the hard fact was that polarisation and backwash effects were such that the more prosperous country gained and the more backward ones suffered from economic integration. He found it very hard to believe that a country like Malawi would be prepared to have another try at economic integration in the immediate future.

Commenting on the problem of timing, Mr. Hawkins said that the sooner steps were taken the better bearing in mind the experience of Latin America where import substitution policies on the basis of tiny domestic markets had posed enormous difficulties to economic union.

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